

Small Business Tax Debt Relief Options and Pitfalls

September 4, 2025



As Published in [Long Island Business News](#)



By [Alan Goldenberg](#), JD, MBA, LL.M, Anchin
Principal & Leader, State & Local Tax and Tax Controversy

Small businesses often struggle with tax debt, unaware of the various responsibilities and options that can cause or relieve debilitating financial pressures. Which is why it is critical to understand and take advantage of the tax considerations that can help lead to more consistent profitability, loss avoidance, and compounding financial problems.

Business vs. personal tax debt

The key difference between personal tax debt and business tax debt lies in who owes the tax and who is legally responsible for paying it. This distinction becomes especially important when dealing with trust fund taxes, such as payroll taxes and sales taxes, which can expose individuals to liability.

Personal tax debt refers to tax obligations that an individual owes directly, typically related to federal or state income taxes. In these cases, the individual is solely responsible for the debt, and tax authorities can pursue collection from the person's wages, bank accounts, or personal assets. Business tax debt, on the other hand, is incurred by an entity such as a corporation or LLC.

While businesses are generally responsible for their own tax obligations, trust fund taxes can create personal liability for individuals involved in the business. Those within an organization that have an ownership stake or those employees who have oversight of the tax function have fiduciary responsibility and can be held jointly and/or severally liable for these trust fund taxes.

Business installment agreements

A business installment agreement is a payment plan established between a business and the IRS—or a state taxing authority—that allows the business to pay its tax debt over time. These agreements are designed for businesses that cannot fully pay their tax liability immediately, but can afford to make consistent periodic payments.

For small businesses—especially those with cash flow challenges or seasonal

income—an installment agreement can be a great tool to avoid collection actions such as levies, liens, or asset seizures. Typically, installment agreements are for up to a 24-month period and require a business to remain compliant with its current tax obligations. Interest and penalties continue to accrue over the life of the agreement.

What is an offer-in-compromise?

An offer-in-compromise (OIC) is a tax relief option, which facilitates a business to settle its tax debt for less than the full amount owed. It is an agreement between the business and the IRS to accept a reduced payment in satisfaction of the full tax liability. The IRS considers an OIC when it believes the business is unable to pay the full amount, and collections are unlikely.

To qualify for the program, a business must demonstrate significant financial hardship. This means its assets and income are insufficient to cover the tax debt, even if paid over time. The IRS evaluates the business's balance sheet and income statement to assess its overall ability to pay.

Good candidates for an OIC are those experiencing a severe downturn in income or profits, businesses with substantial liabilities and little to no equity, and business no longer operating or winding down.

When should a small business pursue 'currently not collectible' status?

Currently not collectible (CNC) status is a temporary form of relief granted by the IRS when a business is unable to pay its tax debt due to severe financial hardship. In CNC status, the IRS halts all collection activities, including liens and levies. However, the debt itself is not forgiven and continues to remain on the books accruing interest and penalties.

Note: generally the IRS has a 10-year deadline, known as the Collection Statute Expiration Date, for the service to collect a tax debt. Once that 10-year period expires, the tax debt is legally uncollectible, and the IRS must write it off, even if it hasn't been paid in full. The 10-year clock can run while a business is in CNC status,

meaning if a business in CNC is unable to pay for several years, the IRS could run out of time to collect the debt altogether.

Can penalties be removed or reduced?

IRS penalty abatement is a process through which businesses can request the reduction or even removal of penalties assessed. The IRS imposes penalties for various noncompliance, such as for filing a late tax return, making a late tax payment, or failing to deposit payroll taxes. The IRS will typically grant penalty abatement in certain circumstances.

First, the IRS may abate penalties if the business can show that it exercised “ordinary business care and prudence,” but was still unable to meet its tax obligations due to circumstances beyond its control. Reasons can include inability to obtain necessary records timely, detrimental reliance on erroneous professional advice or serious illness of key employees/ownership.

The IRS also provides a First-Time Penalty Abatement (FTA) program, which waives penalties for businesses with a clean compliance history—meaning all returns have been filed, tax payments are in the process of being paid and similar penalties have not been issued within the last three years.

Do I have IRS relief options if my small business faces temporary hardships?

If facing a temporary hardship, the IRS offers short-term payment plans, up to 180 days, with no questions asked. No formal installment agreement is needed, and setup can often be arranged over the phone. Interest and penalties continue to accrue, but no collection actions are taken while the plan is active.

If more time is needed, a formal installment agreement can be entered into allowing the business to pay over a longer period of time, generally up to 24 months. For outstanding balances under \$25,000, streamlined agreements can be approved without submitting financial documentation. For larger tax debt, financials and bank statements must be submitted for a formal installment plan to be arranged by the

IRS.

What's the biggest mistake small business owners make regarding tax debt?

The biggest mistake a small business owner can make when dealing with tax debt is ignoring the problem. Often there is a sincere hope they will catch up in due time. Unfortunately, this procrastination can lead to escalated penalties, interest and aggressive collection actions such as bank levies and tax liens, which can cripple their ability to actually catch up. Couple this with new tax debt from subsequent periods, and the business is constantly behind the eight ball. Continuing to incur new tax liabilities while old ones remain unpaid, further exacerbates problems, especially if they are trust fund taxes that may result in personal liability.

What's the first step if my small business is overwhelmed by tax debt?

Seeking help from an industry professional is the best advice for small business owners overwhelmed by tax debt; dealing with the IRS and state tax authorities can be complex and daunting. Missteps can be severe, and using the right approach within these large bureaucratic bodies can mean the difference between resolution and financial collapse. Many business owners don't know of their options, such as installment agreements, OIC, penalty abatement requests, or CNC status.

A tax professional—such as an attorney or CPA—understands the rules, procedures, and internal workings of the IRS or state tax authorities. They can analyze your financial situation, identify the best path forward, and negotiate directly with the IRS on your behalf. Professionals also help ensure that you stay compliant with filing and payment obligations during the resolution process.